



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

November 18, 2004

Financial Audit Management Report

Larry Brown, Executive Director
Mississippi Department of Transportation
P. O. Box 1850
Jackson, Mississippi 39215-1850

Dear Mr. Brown:

The Office of the State Auditor has completed its audit of selected accounts included on the financial statements of the Mississippi Department of Transportation for the year ended June 30, 2004. These financial statements will be consolidated into the State of Mississippi's Comprehensive Annual Financial Report. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Marilyn Purvis, CGFM, Johnnie Davenport, Kim McCrory, and Jessica Short.

The fieldwork for audit procedures and tests was completed on October 29, 2004. These procedures and tests cannot and do not provide absolute assurance that all state legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Financial Reporting

In planning and performing our audit of selected accounts included on the financial statements, we considered the Mississippi Department of Transportation's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on these accounts and not to provide assurance on the internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether selected accounts included on the financial statements of the Mississippi Department of Transportation are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. We are pleased to report the results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Transportation throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

End of Report



State of Mississippi
OFFICE OF THE STATE AUDITOR
PHIL BRYANT
Auditor

January 13, 2005

Single Audit Management Report

Larry Brown, Executive Director
Mississippi Department of Transportation
P. O. Box 1850
Jackson, Mississippi 39215-1850

Dear Mr. Brown:

Enclosed for your review are the single audit finding and the other audit finding for the Mississippi Department of Transportation for the Fiscal Year 2004. In these findings, the Auditor's Office recommends the Mississippi Department of Transportation:

Single Audit Finding

1. Strengthen controls over Davis-Bacon Act requirements; and

Other Audit Finding

2. Strengthen controls over monitoring subrecipient audit requirements.

Please review the recommendations and submit a plan to implement them by February 4, 2005. The enclosed findings contain more information about our recommendations.

During future engagements, we may review the findings in this management report to ensure procedures have been initiated to address these findings.

This report is intended solely for the information and use of management, Members of the Legislature and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Mississippi Department of Transportation
January 13, 2005
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I hope you find our recommendations enable the Mississippi Department of Transportation to carry out its mission more efficiently. I appreciate the cooperation and courtesy extended by the officials and employees of the Mississippi Department of Transportation throughout the audit. If you have any questions or need more information, please contact me.

Sincerely,

Phil Bryant
State Auditor

Enclosures

SINGLE AUDIT FINDING

In conjunction with our audit of federal assistance received by the State of Mississippi, the Office of the State Auditor has completed its audit of selected federal programs of the Mississippi Department of Transportation for the year ended June 30, 2004. This audit was conducted in accordance with auditing standards generally accepted in the United States of America, *Government Auditing Standards*, the Single Audit Act Amendments of 1996, and Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The Office of the State Auditor's staff members participating in this engagement included Karlanne Coates, CPA, Marilyn Purvis, CGFM, Johnnie Davenport and Kim McCrory.

The fieldwork for audit procedures and tests was completed on October 29, 2004. These procedures and tests cannot and do not provide absolute assurance that all federal legal requirements have been met. In accordance with Section 7-7-211, Miss. Code Ann. (1972), the Office of the State Auditor, when deemed necessary, may conduct additional procedures and tests of transactions for this or other fiscal years to ensure compliance with legal requirements.

Internal Control over Compliance

The management of the Mississippi Department of Transportation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs.

We noted a certain matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the department's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts or grants that would be material to a major federal program being audited may occur and not be detected within a timely manner by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness.

In addition, we noted a matter involving the internal control over compliance that requires the attention of management that we have reported on the attached document "Other Audit Finding".

Compliance

Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of management. We have audited each of the major federal programs for compliance with the types of compliance requirements described in OMB Circular A-133. Our audit fieldwork included examining, on a test basis, evidence about the department's compliance with those requirements and such other procedures as we considered necessary.

Based on audit procedures and tests performed, we are pleased to report that no instances of noncompliance that are required to be reported by OMB Circular A-133 were noted.

REPORTABLE CONDITION

CFDA/Finding Number

Finding and Recommendation

DAVIS-BACON ACT

Reportable Condition

20.205

Highway Planning and Construction

Federal Award Number and Year: Various

04-01

Internal Controls Should Be Strengthened over Davis-Bacon Act Requirements

Finding:

The Davis-Bacon Act requires all laborers and mechanics employed by contractors or subcontractors who work on construction contracts in excess of \$2,000 financed by federal assistance funds be paid wages not less than those established for the locality of the project (prevailing wage rates) by the Department of Labor (40 USC 276a to 276a-7). Non-federal entities are required to include in their construction contracts which are subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act and the Department of Labor regulations (29 CFR Part 5), "Labor Standards Provisions Applicable to Contracts Governing Federally Financed and Assisted Construction". This includes a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

Standard operating procedures (S. O. P. No. CAD-07-01-00-000) established by the Mississippi Department of Transportation, require each contractor and subcontractor working on a federal aid project to submit to the project engineer two copies of the "Weekly Summary of Wage Rates" (CAD-880) on a weekly basis. The project engineer is required to verify the information on the CAD-880 by comparing to the daily diaries which detail the work on the project. The CAD-880 is then submitted to the contract compliance officer who reviews and maintains all Davis-Bacon payroll files.

Testwork performed on 40 payrolls from federal aid projects during fiscal year 2004 revealed the following:

- Three instances in which copies of the payrolls were not on file.
- Five instances in which the log-in cards used to document receipt of the payrolls could not be located.
- One instance in which the receipt of the payroll was not logged in on a card.
- One instance in which the number of hours worked recorded on the payroll differed from the number of hours worked per the project diary by eight hours.

Good internal control procedures require the receipt of payrolls be recorded on the log-in cards and copies of the payrolls and log-in cards be maintained to document compliance with the Davis-Bacon Act. The failure to practice good internal controls could result in improper wages being paid and non-compliance with the Davis-Bacon Act.

Recommendation:

We recommend the Mississippi Department of Transportation strengthen controls over the Davis-Bacon Act requirements. The agency should ensure copies of all payrolls are logged in when received, properly reviewed for accuracy and maintained on file. We further recommend the agency maintain the log-in cards in order to document the monitoring procedures performed over contractor and subcontractor payrolls.

OTHER AUDIT FINDING

In planning and performing our audit of the federal awards received by the Mississippi Department of Transportation for the year ended June 30, 2004, we considered internal control over compliance with requirements that could have a direct and material effect on the major federal programs. A matter which requires the attention of management was noted. This matter which does not have a material effect on the agency's ability to administer major federal programs in accordance with applicable laws, regulations, or provisions of contracts or grant agreements involves an internal control weakness.

IMMATERIAL WEAKNESS IN INTERNAL CONTROLS

<u>CFDA/Finding Number</u>	<u>Finding and Recommendation</u>
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SUBRECIPIENT MONITORING

Immaterial Weakness

20.205

Highway Planning and Construction

Federal Award Number and Year: Various

Oth-1

Controls over Monitoring Subrecipient Audit Requirements Should Be Strengthened

Finding:

Office of Management and Budget (OMB) Circular A-133 requires the pass-through entity (primary recipient of federal funds) to determine whether subrecipients have met the appropriate audit requirements. This includes ensuring receipt of an audit report from each subrecipient expending \$300,000 (\$500,000 for fiscal years ending after December 31, 2003) or more in federal awards within nine months after the end of the subrecipient's fiscal year. In addition, OMB Circular A-133 requires the primary recipient to issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and to ensure the subrecipient took appropriate and timely corrective action.

The Mississippi Department of Transportation provided \$300,000 or more of federal financial assistance to multiple subrecipients through a variety of federal programs during fiscal year 2002. Testwork performed during the fiscal year 2004 audit on subrecipient audits received and reviewed by the agency for subrecipient audit year 2002 revealed the following:

- For 11 of 19 subrecipients tested, or 58 percent, we noted audit reports were not received by the agency within the nine-month deadline. The reports were received between two and 12 months late. The letters reminding the subrecipients of the due dates for the audit reports were mailed to the subrecipients during June, the month the reports were due to the agency. We also noted, in four of these instances, the second reminder letters were not mailed until seven months after the reports were due.

- For one of 19 subrecipients tested, or 5 percent, we noted the agency did not receive an audit report from the subrecipient.
- One instance was noted in which an audit report was received with errors and the discrepancies were not resolved for approximately one year.

Without adequate controls over the submission of audit reports and prompt follow-up of audit findings, the agency could fail to comply with federal requirements. Also, federal noncompliance by subrecipients could occur and not be detected timely.

Recommendation:

We recommend the Mississippi Department of Transportation strengthen controls to ensure subrecipient audit reports are received and reviewed in a timely manner. Reminder letters should be promptly mailed to subrecipients to ensure compliance with audit requirements. The appropriate funding division within the agency should be notified of any subrecipient audit findings and should resolve these findings within six months of receipt of the report by the agency.

End of Report